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Inequality aversion in health and wellbeing:

A Faculty of Social Sciences Advanced Research Fellowship

Background

Inequalities matter, especially in things that are basic and fundamental such as health, income, socioeconomic opportunities, and wellbeing. On the one hand, there is a large literature on the determinants of inequalities, and a related literature on how to reduce them. On the other hand, there is a technical literature on how to quantify and to measure degrees of inequalities.

However, this leaves us with a gap. What is missing is research on **by how much these inequalities matter** to us as a society. In other words: How much priority are we willing to give to reduce or prevent these inequalities? Giving higher priority to something means explicitly or implicitly giving lower priority to other things. Resources (including our skills and time) are limited in the short run (and with reduced

economic growth, limited in the longer run, too), and not everything can be achieved. Unless the relevant level of “**inequality aversion**” is known, we cannot make rational policy decisions about how much resource to divert towards preventing or reducing inequalities that matter.

The Faculty of Social Sciences Advanced Research Fellowship will be a stepping stone towards building a sustainable programme of research supported by a network of researchers and academics based at the University of Sheffield that examines inequality aversion in health and well-being. This is addressed by exploring three interrelated research themes outlined below, and through capacity building across the relevant disciplines within and beyond the Faculty.

Theme 1

Inequalities and inequities

Not all inequalities are unfair (and some equalities might be unfair).

1. What are the **distribuenda**, the things that should be distributed equitably? E.g. Should inequalities in health matter more than inequalities in income? Can inequality in one basic sphere of well-being be compensated by an equality (or an inequality in the opposite direction) in another sphere of well-being?
2. What is the **timeframe**? Should we focus on inequalities at one point in time, or across peoples' lifetimes, or even intergenerational? Should a short lasting but severe inequality matter less than a lower grade inequality that is persistent? Why?
3. **Across whom**? Should the same inequality matter more or less depending on the groups it affects (e.g. inequality in longevity across socioeconomic groups vs across gender groups)? Should inequality be measured at the individual or household level (e.g. health vs income)?

These are theoretical issues, to be addressed through discourse.

Theme 2

Quantifying inequality aversion

We would like to reduce or prevent unfair inequalities. But only so long as there is an effective intervention, and its cost is reasonable. This latter point means rational decision making requires the **quantification of inequality aversion** – how much efficiency to sacrifice in order to improve equality.

There is a literature that examines the extent to which members of the public are willing to sacrifice the total good to ensure that the achieved level of good is distributed more equally, which needs to be developed further.

Methodologies for eliciting the inequality aversion parameter from members of the public will be explored.

Theme 3

Inequality aversion and risk aversion

Inequality aversion is a preference that individuals hold as a **citizen**, or a 'societal' preference. It concerns the way individual welfare is aggregated to represent social welfare, and while individuals can (and do) have 'personal' preferences over the social welfare function, this is not the objective function of the individual themselves. However, while pure inequality aversion is a societal preference, purely personal preferences can appear to support inequality aversion through **risk aversion**. Imagine an event with probability p .

[A] each individual has an independent probability of p .
[B] everybody experience the event with probability p and nobody does with $1 - p$.

To an entirely selfish individual, the two cases are equivalent. But the second case is more desirable to a risk neutral and inequality averse society. Quantification of inequality aversion needs to be distinguished from risk aversion. This has been an under-researched area, but is now attracting some research interest. Most of the little empirical research that exist has used income as the distribuendum. Of interest is to explore inequality and risk aversions across different distribuenda such as income, health and wellbeing. Again, methodologies for their elicitation will be developed.

The Fellow

Do you find any of this interesting? If so, please contact....

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